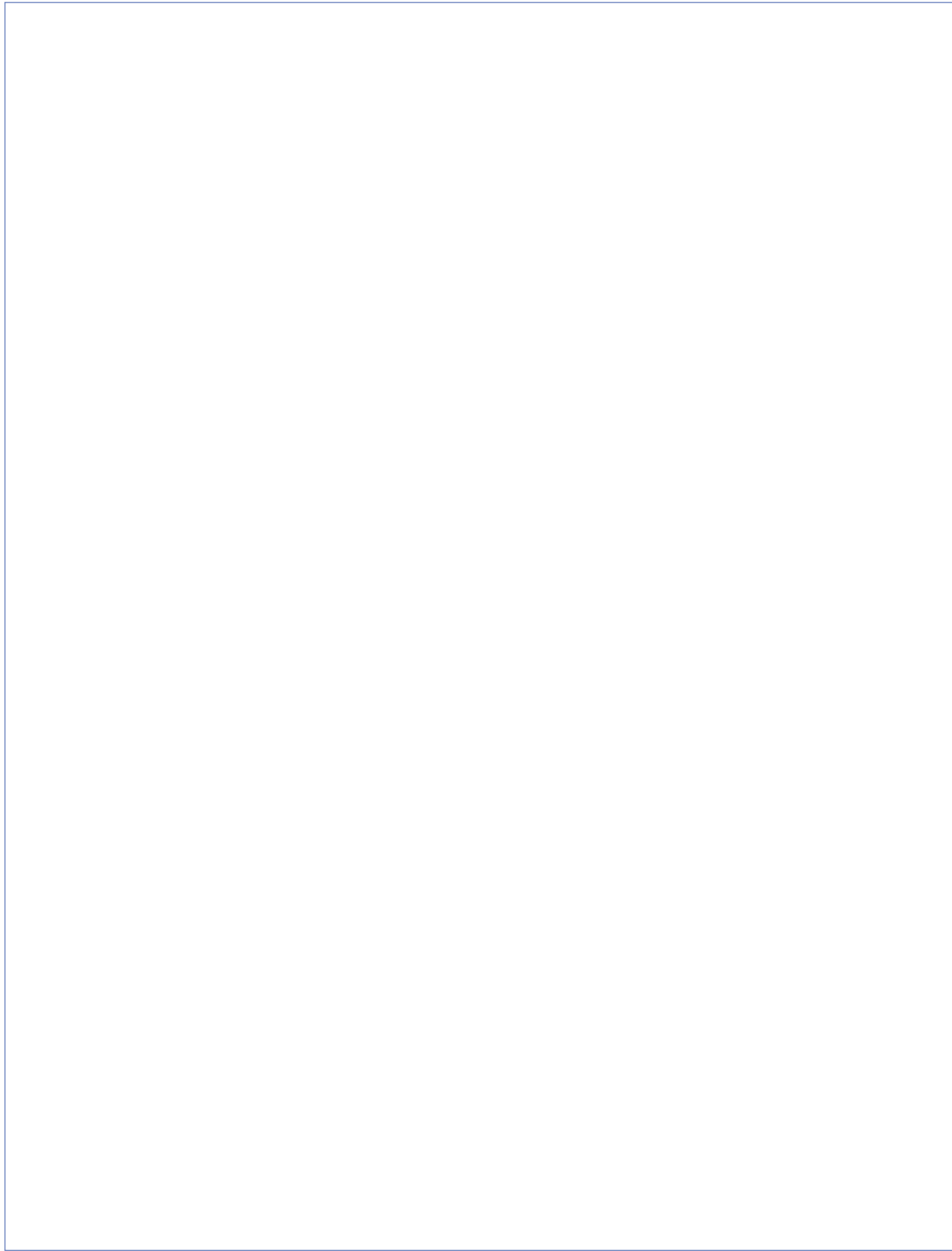


Treasurer Dan Rutherford's position

NO
MORE
DEBT.



Dan Rutherford
ILLINOIS STATE TREASURER



STATEMENT OF POSITION



Illinois is in the midst of a budgetary crisis. Some policy makers want to continue to spend more dollars than the state brings in. Some are advocating long-term, significant borrowing which will spread the state's challenges into the future.

I respectfully disagree.

In 2002, Illinois' bond indebtedness was \$12 billion; it has soared in recent years and today it stands over \$44 billion including \$25 billion to fund public pensions. Illinois' poor financial position and habitual borrowing have lowered the state's bond ratings to a level where borrowing additional funds has become dramatically more expensive. This unsustainable debt load must be broken.

Troubling numbers:

- Illinois taxpayers' debt from borrowing = **\$44.7 billion** (see Appendix A)
- Illinois taxpayers' unpaid bills = **\$7.4 billion**¹
- Illinois' unfunded pension and retiree health care liabilities = **\$140 billion** (see Appendix B)

Each Illinois family shoulders this debt = over \$40,000 per household²

¹ <http://www.ioc.state.il.us/index.cfm/linkservid/66EE26E3-1CC1-DE6E-2F489DF0E5686654/showMeta/0/>

² <http://quickfacts.census.gov/qfd/states/17000.html>

NARRATIVE

Illinois is a state where industry, innovation and progress come together to help drive the Midwest economy. Whether it is the \$9 billion a year agricultural industry, the international companies that call Illinois home, the highly skilled workforce or the unmatched transportation infrastructure, Illinois has the essential elements for a dynamic economy and a healthy state budget. **So what's the problem?**

The truth is Illinois faces an unprecedented financial crisis that is negatively impacting every resident and business. The financial instability is a drag on the economy and a disincentive for job creators to invest here. As the state treasurer, I feel an even greater obligation to sound the alarm about this important issue. **Illinois is on the verge of a financial disaster.**

The Illinois state budget is woefully out of balance. Despite this year's passage of perhaps the largest tax increase in state history, state government is still spending about \$5 billion more each year than it receives in revenue. Illinois has accumulated approximately \$7 billion in unpaid bills. Most alarming is when the true costs of the state's unfunded obligations are included in the calculations, the state has an actual structural **annual** budget deficit of \$12 billion (see Appendix C). To put those figures in perspective, Illinois is spending almost \$3 for every \$2 it takes in. This cannot continue.

At the heart of this budget instability are the bond issuances that are scheduled to be repaid through 2036. Illinois taxpayers owe an oppressive \$44 billion over the next 25 years on these bonds (see Appendix A). \$25 billion of this debt is to repay money borrowed to fund the public pension system. **Every household in the state is obligated to repay \$10,000 for just this borrowing.**

As the state treasurer, I am here to sound the alarm – Illinois taxpayers cannot afford more debt!

Figure 1: Yields On Similar Bond Offerings

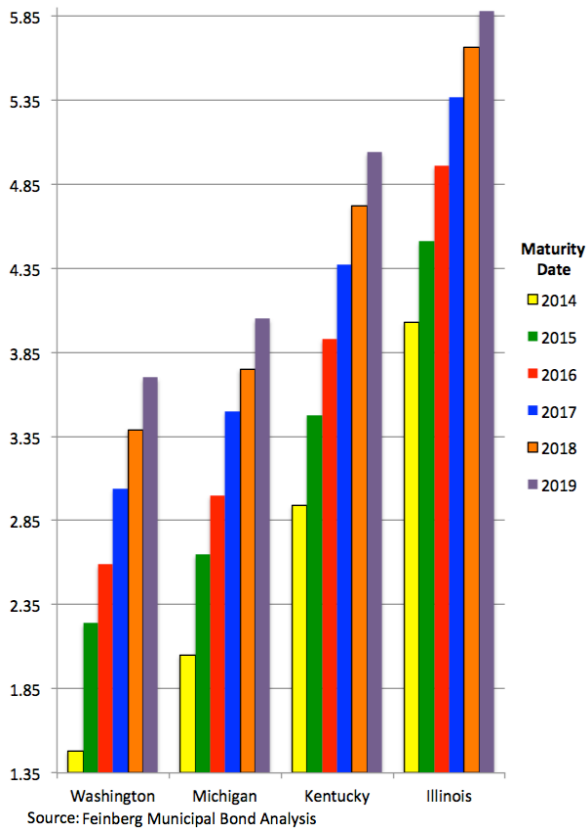
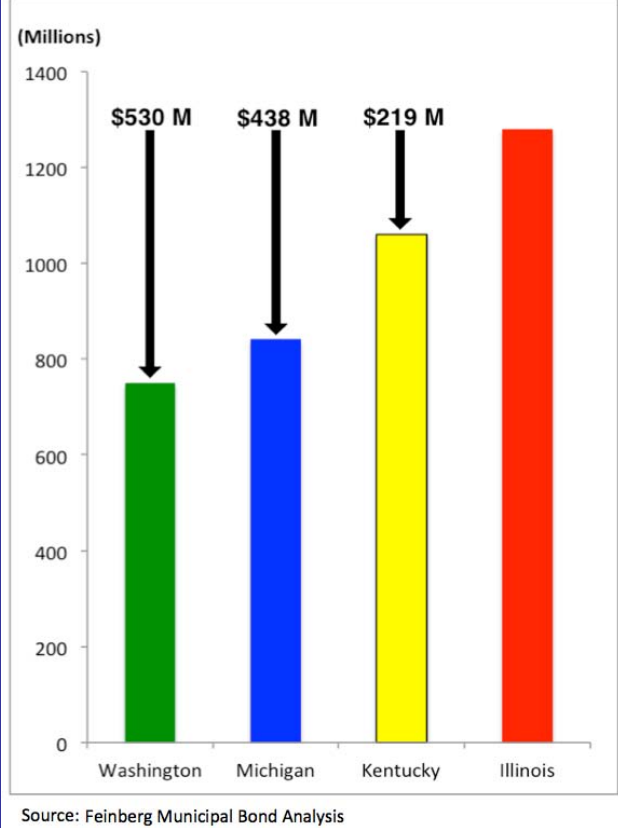


Figure 2: Interest Cost Differences By State



The sale of additional bonds (borrowing) has become far too expensive. The three largest bond rating houses – Standard & Poor's, Moody's, and Fitch – estimate that Illinois carries the 2nd highest aggregate credit risk of all states in the nation; only California is worse. According to Henry Feinberg's analysis of municipal bonds (see Appendix D), if Illinois was to go into the market with another bond issuance, taxpayers would pay a significant amount more than 48 other states with healthier financial positions. Illinois borrowed another \$3.7 billion in April 2011 to partially fund a pension payment; because of the state's low credit rating, taxpayers will have to repay \$1.279 billion of interest; that dollar amount is 17 percent more than Kentucky, 34 percent more than Michigan, and 41 percent more than Washington which all issued similar bonds this year (see Figure 1). In actual dollars, the incremental cost to Illinois versus Kentucky will be \$219 million, versus Michigan will be \$438 million, and versus Washington \$530 million (see Figure 2).

These numbers show the stark reality of Illinois' debt addiction. Massive, multi-billion dollar borrowing literally costs Illinois taxpayers hundreds of millions of extra dollars in repayment than if the state's credit rating was as healthy as any of our neighboring states.

To heal Illinois' financial woes, it's mandatory that borrowing stops.

The state's poor bond rating has another negative impact: the "halo" effect cast on the municipalities and

counties in Illinois makes borrowing even more expensive for them when they issue bonds to fund major infrastructure projects. In March 2011, Sangamon County, Illinois, issued a \$10 million bond. Similar bonds were issued the same month in Muhlenberg County, Kentucky, at a rate 14 percent lower and in Clear Lake City, Texas, at a rate 17 percent lower. When multiplying this halo effect over hundreds of Illinois communities one realizes that scores of Illinois taxpayers will be taking a substantial financial hit twice.

This bond conversation does not even take into account the unfunded obligations associated with Illinois' five pension funds and the retiree health care benefits that have been promised to government workers. The liability associated with the state's pension plans and retiree health care programs dwarf all other state debts. They are now more than \$140 billion (see Appendix B), and that number grows every day that the status quo continues. The overall pension and retiree health care liabilities are equivalent to an additional \$30,000 per Illinois household. If the state is ever to get its finances in order, it must address these issues. And we must act now.

To comprehend the magnitude of the challenge to protect pensions, consider the findings of the non-partisan Pew Center on the States³. Pew found that Illinois has the worst-funded pension systems in the country – worse than California and worse than New Jersey. In a report released April 26, 2011, Pew noted that Illinois' pension funds had just 51 percent of the assets necessary to cover obligations. Healthy pension funds should have assets equal to 80 percent of obligations. This alarming figure trends downward each year and if something is not done, the state's pension funds will run out of money – and that would be a disaster for everyone in Illinois. Hard working government employees like teachers, nurses and prison guards *deserve to have their retirement benefits protected*. We cannot ignore this problem any longer.

The governor at one time submitted a budget to the General Assembly for FY12 which contained an even larger deficit than previously calculated according to the Institute for Illinois' Fiscal Sustainability at the Civic Federation on May 8, 2011⁴. According to the Civic Federation's analysis, the governor's proposed spending was \$2.4 billion greater than revenues even when factoring in the personal and corporate income tax increase. For the Illinois debt to be repaid and the bond ratings to improve, the state can never budget to spend more money than what is brought in. Reform of public pensions will be a critical piece of the overall budget solution.

It is time Illinois honestly confronts its financial problems head on. It will not be easy. No more debt and beginning to live within the means of taxpayers is essential for the fiscal stability of Illinois' future.

³ http://www.pewcenteronthestates.org/initiatives_detail.aspx?initiativeID=85899358839

⁴ <http://www.civicfed.org/press-room/governor%E2%80%99s-budget-proposes-increased-spending-artificially-inflated-revenues-expensive-bo>

CONCLUSION

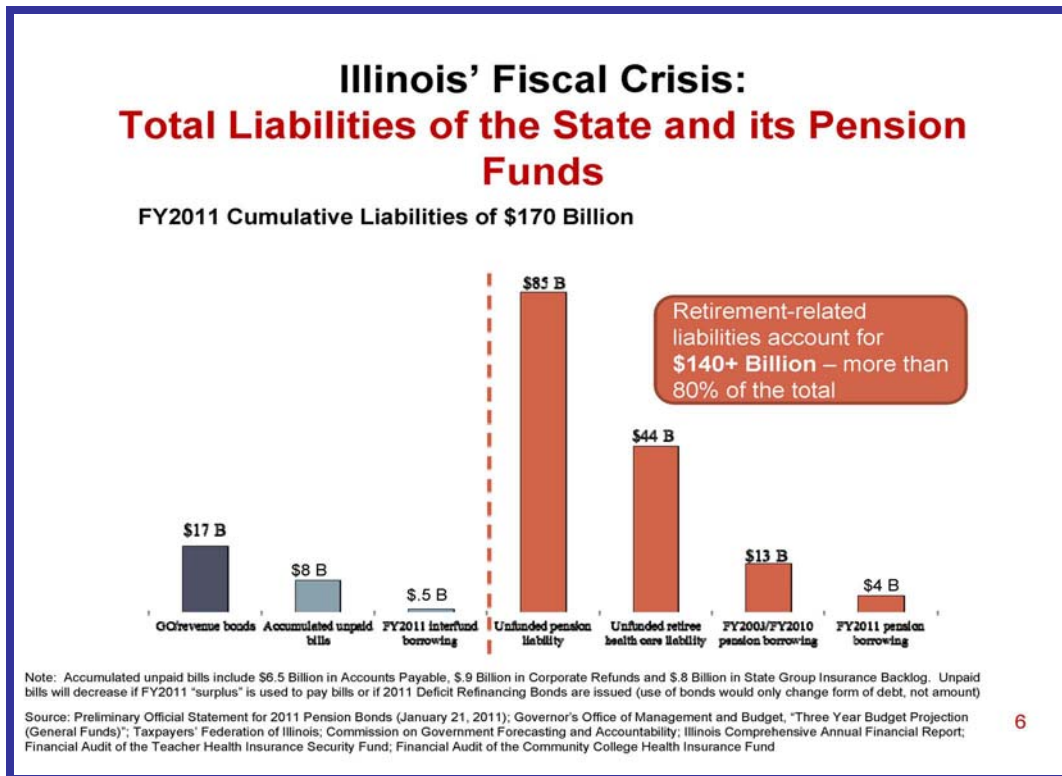
- Bond repayment debt currently stands above **\$44 billion**. Illinois must stop borrowing; in 2002 bond debt totaled only \$12 billion. Illinois' financial position leaves our credit rating second worst in the country, only ahead of California.
- Unfunded pension and retiree health care liabilities add up to **\$140 billion**.
- Total debt liability for Illinois families currently stands above **\$40,000 per household**.
- Responsible budgeting: **spending only as much money as the state brings in**. This will help set Illinois on a course of financial recovery.
- Freezing state spending will begin to **shrink the debt and help repair Illinois' miserable credit rating**. Taxpayers, pension recipients, and future generations of Illinois citizens can afford nothing less.

APPENDIX

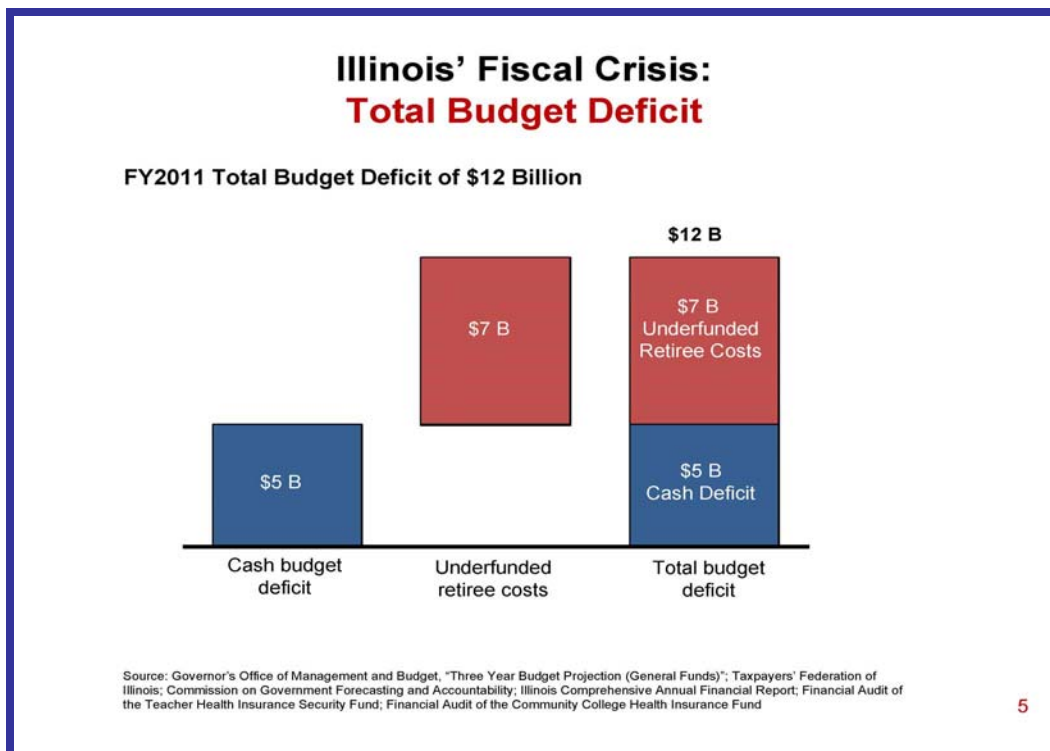
Appendix A – State of Illinois Bond Repayment Schedule

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL BY YEAR
FY11	\$84,905,000.00	\$275,506,500.00	\$360,411,500.00
FY12	\$1,561,880,000.00	\$1,338,163,056.75	\$2,900,043,056.75
FY13	\$1,549,360,000.00	\$1,293,254,407.25	\$2,842,614,407.25
FY14	\$1,628,035,000.00	\$1,237,982,554.63	\$2,866,017,554.63
FY15	\$1,825,610,000.00	\$1,170,322,522.63	\$2,995,932,522.63
FY16	\$1,421,735,000.00	\$1,089,416,998.75	\$2,511,151,998.75
FY17	\$1,713,340,000.00	\$1,022,641,688.75	\$2,735,981,688.75
FY18	\$1,667,820,000.00	\$937,250,788.75	\$2,605,070,788.75
FY19	\$1,652,485,000.00	\$850,227,711.25	\$2,502,712,711.25
FY20	\$779,620,000.00	\$760,942,808.75	\$1,540,562,808.75
FY21	\$762,775,000.00	\$723,702,263.75	\$1,486,477,263.75
FY22	\$949,770,000.00	\$679,686,947.50	\$1,629,456,947.50
FY23	\$716,210,000.00	\$635,692,260.00	\$1,351,902,260.00
FY24	\$705,630,000.00	\$1,320,453,430.00	\$2,026,083,430.00
FY25	\$761,860,000.00	\$566,283,310.00	\$1,328,143,310.00
FY26	\$818,750,000.00	\$527,914,925.00	\$1,346,664,925.00
FY27	\$993,235,000.00	\$482,473,850.00	\$1,475,708,850.00
FY28	\$1,063,815,000.00	\$431,764,150.00	\$1,495,579,150.00
FY29	\$887,640,000.00	\$381,359,200.00	\$1,268,999,200.00
FY30	\$976,640,000.00	\$353,723,000.00	\$1,330,363,000.00
FY31	\$1,027,400,000.00	\$304,291,800.00	\$1,331,691,800.00
FY32	\$1,090,000,000.00	\$252,211,800.00	\$1,342,211,800.00
FY33	\$1,136,000,000.00	\$178,871,800.00	\$1,314,871,800.00
FY34	\$221,300,000.00	\$120,971,800.00	\$342,271,800.00
FY35	\$971,200,000.00	\$109,831,800.00	\$1,081,031,800.00
FY36	\$624,000,000.00	\$22,782,000.00	\$646,782,000.00
GRAND TOTAL	\$27,591,015,000.00	\$17,067,723,373.75	\$44,658,738,373.75

Appendix B – Unfunded Pension and Retiree Health Care Liabilities



Appendix C – FY11 Structural Budget Deficit



Appendix D – State of Illinois Bond Issuance Compared to Other States

1. \$3,700,000,000
State of Illinois
TAXABLE UT GO's
A1/A+ Rated
Negotiated sale - week of 2/21/11

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>
2014	4.026	4.026
2015	4.511	4.511
2016	4.961	4.961
2017	5.365	5.365
2018	5.665	5.665
2019	5.877	5.877

Total interest cost: \$1,279,801,800

5 year Treasury = 2.27%

10 year Treasury = 3.59%

2. \$269,815,000
Kentucky Asset/Liability Comm
TAXABLE General Fund Revs
Aa2/A+ Rated
Negotiated sale - week of 2/21/11

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>
2014	2.939	2.939
2015	3.478	3.478
2016	3.928	3.928
2017	4.372	4.372
2018	4.722	4.722
2019	5.039	5.039

Total interest cost: \$1,060,671,550

Assuming State of Illinois identical
debt service structure (see # 1)

5 year Treasury = 2.27%

10 year Treasury = 3.59%

3. \$90,375,000
State of Washington
TAXABLE UT GO's
Aa1/AA+ Rated
Competitive sale - 1/19/11

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>
2014	1.48	1.48
2015	2.24	2.24
2016	2.59	2.59
2017	3.04	3.04
2018	3.39	3.39
2019	3.70	3.70

Total interest cost: \$750,277,250

Assuming State of Illinois identical
debt service structure (see # 1)

5 year Treasury = 1.93%

10 year Treasury = 3.34%

4. \$150,000,000
State of Michigan
TAXABLE UT GO's
Aa2/AA- Rated
Competitive sale - 4/14/11

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>
2014	2.05	2.05
2015	2.65	2.65
2016	3.00	3.00
2017	3.50	3.50
2018	3.75	3.75
2019	4.05	4.05

Total interest cost: \$841,557,500

Assuming State of Illinois identical
debt service structure (see # 1)

5 year Treasury = 2.23%

10 year Treasury = 3.50%

Appendix D (continued) – Illinois Municipal Bond Issuance Compared to Other Municipalities

1. \$10,295,000
Sangamon County SD #3, IL
Federal Tax-Exempt UT GO's
Aa3 / A1 (Assured Gty Insd)
Competitive sale - 3/1/11

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>
2013	3.00	2.06
2014	4.00	2.41
2015	4.00	2.86
2016	4.00	3.11
2017	4.00	3.37
2023	5.00	4.50
2025	5.00	4.75
2027	5.00	5.00
2029	5.00	5.00

Total interest cost: \$4,708,361

2. \$11,765,000
Muhlenberg County, KY
Federal Tax-Exempt UT GO's
A1 Rated
Competitive sale - 3/3/11

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>
2013	2.25	1.1
2014	2.25	1.5
2015	2.50	1.95
2016	2.625	2.2
2017	2.75	2.45
2023	4.00	3.9
2025	4.125	4.25
2027	4.40	4.5
2029	4.625	4.7

Total interest cost: \$4,020,599
Assuming Sangamon County SD #3
identical debt service structure (see #5)

3. \$7,620,000
Clear Lake City, TX
Federal Tax-Exempt UT GO's
AA- rated
Competitive sale - 3/10/11

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>
2013	2.50	1.05
2014	2.50	1.41
2015	2.50	1.81
2016	2.50	2.06
2017	3.00	2.33
2023	4.00	3.75
2025	4.00	4.14
2027	4.25	4.35
2029	4.40	4.53

Total interest cost: \$3,893,905
Assuming Sangamon County SD #3
Identical debt service structure (see #5)



EDITORIAL RESPONSES

Your share: \$42,000

You used to be able to lead a long life without ever knowing the name of an Illinois state treasurer. Now, though, you owe considerable gratitude to the current treasurer, a Republican first-termer named Dan Rutherford. This week, he blew a very loud whistle. In so doing, he made it harder for Illinois lawmakers and Gov. Pat Quinn to sink you even deeper in debt.

Rutherford first calculated that the pols who run Illinois have amassed nearly \$200 billion in debt. That includes some \$45 billion in bond debt, \$8 billion in unpaid bills and \$140 billion in unfunded pension and health care benefits for public employees. Every household in Illinois owes \$42,000. Don't get us started on your share of the debts run up by your profligate local and federal governments.

With all that debt squeezing spending on schools and other priorities, Quinn now wants legislators to, yes, authorize still more billions in borrowing to pay the state's bills. Why? Because (a) Quinn cannot bring himself to propose a budget that would spend only what Illinois collects in revenues and (b) Quinn also cannot bring himself to campaign for the more economical pension system that Illinois desperately needs.

To that Rutherford, bless him, retorts: "You can't borrow any more money. If I need to send letters to the rating companies to tell them the treasurer of Illinois is opposed to more borrowing, I'm going to do that. If it means I have to get ahold of the bond houses to let them know that, 'I agree with you, we are a major risk, and I am the finance officer of this state,' I intend to do those kinds of things if that's what it's going to take to keep Illinois from going into further debt. ...

"Borrowing is an addiction. ... Illinois. Cannot. Borrow. Any. More. Money."

That's what Rutherford said Monday at a news conference. Legally, he can't block long-term borrowing binges. His resolve, though, makes him stand out in Springfield. Many legislators of both parties are hoping to escape their spring session Tuesday without slashing state spending or reforming a pension system headed for implosion. Some of them instead would take the timid route and keep on borrowing billions.

You'll recall that on the night they jammed a 2-percentage-point income tax increase through the General Assembly, Quinn's fellow Democrats essentially assured all of us that more borrowing wouldn't be necessary:

The new \$7 billion a year would cover the state's back bills.

Senate President John Cullerton: "The purpose of this bill is to raise enough money so that we can continue to pay our pensions without borrowing the money. To pay off our debt. To have enough money to pay the interest on that debt. And, for the first time ever, establish caps on how much we can appropriate. ... We have just come through the worst economic crisis in our lifetimes. And we have not paid our bills."

And House Majority Leader Barbara Flynn Currie: "Remember, the point of this income tax increase is not to expand programs, not to do brand-new things in Illinois state government. It is only intended to pay our old bills and deal with the structural deficit."

Maybe Quinn and his allies were hoping the rapture would rescue them from the consequences of all the debt they have shoved onto taxpayers. If that was the plan, sorry about your luck. What's crucial now, in the last days of this session, is to restrict spending and block more borrowing. That means:

- Republicans and Democrats need to grow spines and tell the public employees unions now pressuring them that if the pension system isn't reformed now, the prospect that the system goes broke only increases.
- Legislators need to slash Quinn's proposed spending for the fiscal year that starts July 1 — and dedicate any unexpected revenues to paying down old bills.
- Someone has to remind Quinn that, on Feb. 16, his top two aides admitted that it's far cheaper for the state to cover late-payment penalties on old bills (\$60 million a year) than to pay interest on the additional \$8.75 billion that Quinn wants to borrow (\$540 million a year).

We often write that it's shameful for deadbeat Illinois not to pay its bills. But remember, the only reason Illinois has any overdue bills is that lawmakers spent more money — and promised public employees far more in retirement benefits — than state revenues justify.

The way out of this morass is to cut spending and reform the pension system so it serves both taxpayers and public employees. Do those things and Dan Rutherford's wise words will be one prophecy (of sorts) that comes true:

"Borrowing is an addiction. ... Illinois. Cannot. Borrow. Any. More. Money."

OPINION

Richard Johnston • Publisher
Barry Winterland • General Manager
Dan O'Brien • Director of Operations
Mark Pickering • Editor
Lenore S. Sobota • Opinion Editor

The Pantagraph
Established in 1837

Our Views

If Gov. Quinn won't listen, Wall St. might

Treasurer Dan Rutherford is right to sound the alarm about the state's indebtedness, even if it takes warning Wall Street not to loan money to Illinois.

Gov. Pat Quinn said Friday that if he were Rutherford, "I'd watch my language."

Quinn — and the state — would be better off if the governor watched the state's burgeoning debt, instead.

The state cannot afford to borrow more money. It is as simple — and complex — as that.

Rutherford breaks it down this way:

Illinois taxpayers' debt from borrowing is \$45 billion.

The total in unpaid bills is \$8 billion.

The state's unfunded pension and retiree health care liabilities total \$140 billion.

That comes to a debt of \$42,000 per household in Illinois.

The problem didn't happen overnight, but it certainly accelerated in the past decade. Rutherford notes that the state's bond indebtedness was \$12 billion in 2002; now it's \$45 billion.

In a position paper about the problem, Rutherford describes Illinois as "on the verge of financial disaster" and notes, "Illinois is spending almost \$3 for every \$2 it takes in. This cannot continue."

He is right. And that is despite this year's monster tax increase.

Borrowing won't solve the state's problems. It will only make them worse. Illinois already has the second worst bond rating in the country. At least one rating service says Illinois is worse than California, giving Illinois a "negative outlook" while California is considered "stable."

It is hard to argue with that negative analysis when Quinn is talking about borrowing \$8 billion more.

The state's poor bond rating means the state has to pay more in interest when it sells bonds, compared to states with better financial habits.

In his report, Rutherford notes, "Illinois borrowed another \$3.7 billion in April 2011 to partially fund a pension payment; because of the state's low credit rating, taxpayers will have to repay \$1.279 billion in interest; that dollar amount is 17 percent more than Kentucky, 34 percent more than Michigan and 41 percent more than Washington which all issued similar bonds this year."

Rutherford is calling for freezing state spending and ending borrowing.

As treasurer, Rutherford has a say in short-term borrowing, but he cannot block long-term borrowing. However, the governor needs a three-fifths majority in both houses to approve his borrowing plan.

Rutherford said that by outlining the scope of the problem, "I bolstered the position" of state lawmakers who oppose more borrowing. And he intends to continue to keep shouting about it.

State officials, especially the governor, must listen.

**The
Pantagraph**

